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April 20, 2005

Mary L. Cottrell, Secretary
Department of Telecommunication and Energy
One South Station, 2nd Floor
Boston, MA 02110

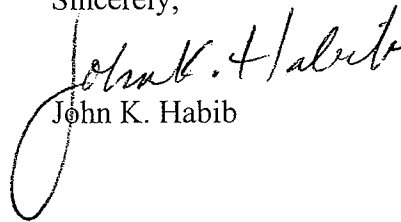
Re: D.T.E. 04-85 — Petition of Boston Edison Company and Commonwealth Electric Company for Approvals Relating to the Restructuring of Power Purchase Agreements with Northeast Energy Associates Limited Partnership

Dear Secretary Cottrell:

On behalf of Boston Edison Company ("Boston Edison") and Commonwealth Electric Company ("Commonwealth"), d/b/a NSTAR Electric (together "NSTAR Electric"), I have enclosed for filing a response to the Department of Telecommunications and Energy's (the "Department") questions regarding NSTAR Electric's March 9, 2005 Compliance Filing in the above-referenced proceeding, as posed via electronic mail on March 30, 2005 and as discussed via conference call on April 11, 2005. The response is identified as RR-Compliance-1.

Thank you for your attention to this matter.

Sincerely,



John K. Habib

Enclosures

cc: Joan Foster Evans, Hearing Officer
John Cope-Flanagan, Esq.
Boris Shapiro
Marilyn Ross
Miguel Maravi
Robert Harrold
Sean Hanley
Xuan Yu
Service List

Record Request DTE-Compliance-1

Please explain the derivation of the following information contained in the Company's March 9, 2005 compliance filing:

- (a) customer savings numbers for Boston Edison, Commonwealth, and overall customer savings; and
- (b) transfer of savings from Commonwealth to Boston Edison to achieve savings amounts.

Response

Methodology

In accordance with the requirements of the Department's order in D.T.E. 04-85, the Companies submitted a Compliance Filing on March 9, 2005, which presented an updated calculation of projected customer savings and the transfer of savings between the customers of Commonwealth and Boston Edison. In describing those calculations, the Companies will compare the amounts included in the Compliance Filing with the most recent data submitted in the record of the case, *i.e.*, the response to Record Request DTE-3.

Consistent with the methodology used throughout the proceeding, projected customer savings computed in the Compliance Filing were determined by comparing the net present value of the transition costs that would be collected from customers: (a) under the former PPAs with NEA; and (b) pursuant to the NEA Restructuring Agreements. Consistent with prior filings, the savings for Boston Edison and Commonwealth are summarized in Exhibit NSTAR-BEC-GOL-2 (Compliance) and Exhibit NSTAR-COM-GOL-2 (Compliance), respectively. These exhibits summarize the total projected transition payments to be made by customers with no change in the NEA PPAs (Exhibit NSTAR-BEC-GOL-3 (Compliance) and Exhibit NSTAR-COM-GOL-3 (Compliance)) and the restructured NEA contracts (Exhibit NSTAR-BEC-GOL-4 (Compliance) and Exhibit NSTAR-COM-GOL-4 (Compliance)).

As recognized by the Department in its order, the final projected customer savings amounts were subject to adjustment, based primarily on the actual closing date and the final amounts paid at closing. D.T.E. 04-85, at 35. The Closing Payment is incorporated into the Company's calculation of annual costs relating to the NEA Restructuring in Exhibit BEC-GOL-4 (Compliance), Columns D and E, page 6, line 'Jan

– Feb (2005)’ **CONFIDENTIAL** and Exhibit COM-GOL-4 (Compliance), Columns D and E, page 13, line ‘Jan – Feb (2005)’ **CONFIDENTIAL**. Specifically, the Closing Payment is included in each of the Companies’ NEA Restructuring-related costs for the year 2005. Line 5 of Attachment RR-DTE-Compliance-1 shows the composition of these amounts. The Closing Payment does not affect above-market costs after 2005.¹

The transfer of savings from Commonwealth to Boston Edison was achieved through an iterative process of multiplying a fixed percentage amount of Commonwealth’s annual savings and transferring these savings to Boston Edison, until Boston Edison’s savings were positive. The adjustments are reflected in Column O of Exhibit NSTAR-BEC-GOL-4 (Compliance) at 8 **CONFIDENTIAL** and Exhibit NSTAR-COM-GOL-4 (Compliance) at 14 **CONFIDENTIAL**, respectively. Through this iterative process, approximately 18.5 percent of savings were transferred from Commonwealth to Boston Edison.

Savings Calculations

The final projected customer savings figures for Boston Edison’s and Commonwealth customers are reflected in Exhibit NSTAR-BEC-GOL-2 (Compliance) and Exhibit NSTAR-COM-GOL-2 (Compliance), respectively. The final figures compare to the customer savings estimates reflected in Attachment RR-DTE-3(d) and Attachment RR-DTE-3(h) on a net present value basis as follows:

¹ The Department should note that Exhibit NSTAR-BEC-GOL-4 (Compliance) at 8 **CONFIDENTIAL** and Exhibit NSTAR-COM-GOL-4 (Compliance) at 15 **CONFIDENTIAL** show contract-specific costs relating to the NEA Restructuring for Boston Edison (during the years 2006 through 2010) and Commonwealth (during the years 2006 through 2016), respectively that are different from the contract-specific costs referenced in the corresponding exhibits filed as Attachment RR-DTE-3(f) and Attachment RR-DTE-3(j). These changes are the result of NEA’s contractual right to adjust the Support Payment schedules reflected in the Amended and Restated Power Purchase Agreements (at § 4.1(a)) to change the Support Payment stream between contracts only (but not between Boston Edison and Commonwealth). Bellingham Execution Agreement at §7.11. As required by the terms of the Bellingham Execution Agreement, this change has no impact on the individual Support Payment streams paid by customers of Boston Edison or Commonwealth. For example, in each year, beginning in 2006, the sum of the above-market, support payments in Exhibit NSTAR-BEC-GOL-4 (Compliance), page 6, Columns D and E, equal the sum of the above-market, support payments in Attachment RR-DTE-3(f), page 6, Columns D and E.

(in millions \$)

COMPANY	RR-DTE-3	COMPLIANCE
Boston Edison	0.000003	0.000026
Commonwealth	51.952052	67.289190
Combined	51.952055	67.289216

The undiscounted amounts are

(in millions \$)

COMPANY	RR-DTE-3	COMPLIANCE
Boston Edison	\$ 25.6	\$ 18.0
Commonwealth	<u>\$ 95.0</u>	<u>\$121.2</u>
Combined	\$120.6	\$139.2

The final customer savings associated with the transaction increased from the estimated savings because: (1) the actual Closing Payment paid by NEA was higher than estimated, resulting in approximately \$11 million of additional funds paid to NSTAR by NEA;² (2) the Company's Compliance exhibits include actual costs incurred during 2004 and January and February 2005³ (the actual costs for 2004 have no impact because this period was prior to the targeted closing date; however, the high Henwood forecast for January and February indicated that the pre-existing contract was less expensive than the above-market support payment to NEA by \$5 million); and (3) Attachment RR-DTE-3(i) understated savings by approximately \$3 million because of a flaw in the formula on pages 13 and 14 for the totals of NEA for 2004. While the calculation was correct for the above-market amount shown on page 15, the totals on pages 13 and 14 carried forward, understating the above-market for 2004 in the base case. This understatement of savings by \$3 million in RR-DTE-3 is corrected in the Compliance Filing.

The actual Closing Payment was affected by changes in both the Closing Date Amount and the Adjusted Bid Price, as follows:

² A Closing Payment of \$29.944 million was paid by NEA on the closing date. The figure was derived by adding the capped Adjusted Bid Price Amount of (\$80.000) million (see Exh. NSTAR-GOL-4 (Compliance)) to be paid by NEA, less the Closing Date Amount of \$50.056 million (see Exh. NSTAR-GOL-3 (Compliance)) to be paid by the Companies.

³ Attachment RR-DTE-3(f) and Attachment RR-DTE-3(j) include actual costs for the months of January through May 2004 and estimated costs for the period June 2004 through February 2005.

- the actual Closing Date Amount differed from the estimated amount because NSTAR Electric's actual energy, capacity and support payments during the Interim Period, representing the Closing Date Amount, were approximately \$3 million less than had been estimated (cf Attachment RR-DTE-3(a), Total Estimated Closing Date Amount of \$53.607 million, with Exh. NSTAR-GOL-3 (Compliance), Total Closing Date Amount of \$50.056 million); and
- the actual Adjusted Bid Price differed from the estimated amount because changes in market prices for energy resulted in a calculated Adjusted Bid Price of (\$88.457) million, which was capped at (\$80.000) million pursuant to the First Amendment to the Bellingham Execution Agreement (see Exh. NSTAR-GOL-4 (Compliance)). The final Adjusted Bid Price of (\$80.000) million was approximately \$8 million more than the estimated Adjusted Bid Price of (\$72.084) million (see Attachment RR-DTE-3(b)).

When the final Closing Payment, representing adjustments during the Interim Period, was incorporated into NSTAR's calculation of above-market costs associated with the NEA Restructuring Agreement, customer savings increased accordingly.

The amount of savings transferred in the Compliance Filing is approximately half the amount that was projected in RR-DTE-3 (\$12.4 million on a net-present-value basis in the Compliance Filing vs. \$24.0 million on a net-present-value basis in the response to Record Request DTE-3). The annual amount to be transferred in 2007 through 2016 is set forth in Exhibit NSTAR-BEC-GOL-4 (Compliance) at 8 [Column O] **CONFIDENTIAL** and Exhibit NSTAR-COM-GOL-4 (Compliance) at 14 [Column O] **CONFIDENTIAL**, respectively. The change in the transfer amount is related to the increased savings associated with the lower Closing Payment described above.

NSTAR ELECTRIC
ANALYSIS OF NEA PAYMENTS
FOR THE MONTHS OF JANUARY & FEBRUARY 2005
(\$ in Millions)

	NEA A	NEA B	NEA 1 (25 MW)	NEA 2 (21 MW)
	Boston Edison	Commonwealth		
1 January 2005 Actual Billing	\$7.1	\$7.3	\$1.6	\$2.0
2 February 2005 Actual Billing	6.7	7.8	0.9	1.8
3 Closing Date Amount	16.8	24.4	4.6	4.3
4 Adjusted Bid Price	(44.2)	(20.6)	(8.3)	(6.9)
5 Total Jan - Feb 2005	(\$13.6)	\$18.9	(\$1.2)	\$1.2

Note:

NEA A and B per Exhibit NSTAR-BEC-GOL-4 (Compliance), Page 6, Columns D and E.
NEA 1 and 2 per Exhibit NSTAR-COM-GOL-4 (Compliance), Page 13, Columns D and E.